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Sent: Friday, October 03, 2008 3:07 PM
To: Kinkle, Sherrie; broussea@sonoma-county.org
Subject: Comments to LTA 2008/056

In his Letter to Assessors, No. 2008/056, Mr. David Gau proposed adding economic lives to various equipment categories reported in Assessors' Handbook Section 581, *Equipment Index and Percent Good Factors*. Attached to his letter was a draft table containing proposed economic lives for inclusion in AH 581. The purpose of this factor, among others, is to impute fair market value to fixtures and personal property via the cost approach to value. Some of the factors contained in the draft table are troubling and could result in significant under assessment. Worse still, this could undermine the authority of the assessor to independently appraise property.

Assessors' Handbook 501 defines economic life as, "*The period of time over which improvements to real property contribute to property value*". Typically, physical life is expected to be longer than economic life. None the less, the two concepts are inter-related because, not infrequently, older properties are renewed, remodeled or rehabilitated to extend both the physical and economic lives.

With these appraisal concepts in mind, the reasonableness of publishing economic lives for a hundred or so fixtures and personalty is problematic. In our own field of appraisal, mineral and energy property evaluation, the factors being pro-offered are too short. Application of short economic lives will result in unreasonably low indicators of fair market value.

For example, the draft table determines the economic life of a cogeneration plant to be 20 years. This is unfathomably short and demonstrably wrong. The best evidence is market data. Sales of cogeneration plants and electric plants generally, indicate the economic life of the vast majority of plants is greater than thirty years. Buyers' pro formas are prima facie evidence of economic lives being at least thirty years. Some examples are: 1) the lone Coal-fired Cogeneration Plant; 2) the POSDEF Coal fired Cogeneration Plant in Stockton; 3) Calpine Geysers Power Plants in Lake and Sonoma Counties.

Secondary data is equally compelling. A number of cogeneration plants and other power plants were constructed with refurbished equipment previously installed in decommissioned power plants (hence were thirty or forty years old before reinstallation). Some examples include: 1) the Sierra Pacific Cogeneration Plant in Terra Bella; 2) the Pacific Oroville Wood-fired Power Plant; 3) Geysers Geothermal Unit 1 in Sonoma County; 4) Milner Creek Hydro Plant in Mono County.

Assessment appeal proceedings on cogeneration and electric power plants also confirm economic lives are commonly thirty years or greater. Examples include: 1) Exxon's Los Flores Canyon Cogeneration Plant; 2) Vulcan Geothermal Plant in the Imperial Valley; 3) the Santa Maria Cogeneration Plant in Santa Barbara County.

Public file, government data also indicates cogeneration plants and electric power plants generally have lives of thirty to forty years. Numerous California Energy Commission studies, over many decades, have forecasted economic and physical lives of cogeneration and electric power plants as thirty years or greater. Similarly, a multitude of "*Notice of Intent to Construct*" and "*Applications for Certification*" filed with the California Energy Commission document physical and economic lives of thirty years or greater for

these type properties.

Collectively, this data refutes the 20 year economic life for cogeneration plants. Adoption and application of this proposed factor will result in the under assessment of these type properties. As you know, the shorter the life estimate, the faster the improvement is depreciated. In light of market and secondary data, a short life is not supported.

The proposed table undermines the Assessor's duty to estimate fair market value and diminishes the presumption of fairly assessing the property before County Assessment Appeals Boards. From a practical standpoint, Assessment Appeals Boards give great weight to Assessors' Handbooks; therefore if the Assessor deviates from the Handbook, the presumption of correctness is called into question. Thus, the proposed table becomes more of a **prescription** than a **guide**. Further, erroneous life tables are an invitation for litigation resulting in a diversion of county resources to defend the Assessor's assessments.

I urge the Board to reconsider the adoption of economic lives without proper study and input from County Assessors. The Board's proposal is a solution in search of a problem. If adopted, it could be a problem needing a solution.

Yours truly,



Joe Colosi

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